

Greenfield: an alternative entry strategy for Avaleo in the UK

Educating the consumer for the need of case management software in the providers systems' market



Business Project: Avaleo – Finding Growth Opportunities in the UK market

Maria Duarte Ferreira Silva Serrano
Masters in Finance. #572
June 13, 2014

Table of contents

I.	Business Project Context.....	3
a.	Company.....	4
b.	Current Client Situation.....	4
c.	The Business Project Challenge.....	4
d.	Market Overview.....	4
e.	Summary of Conclusions.....	5
II.	Greenfield: an alternative entry strategy for Avaleo in the UK: <i>Educating the consumer for the need of case management software in the provider's systems market</i>.....	6
a.	Greenfield: an alternative entry strategy.....	7
b.	The Opportunity and the Challenges.....	7
c.	Strategy to educate the consumer for the need of case management software and its benefits in the providers' systems market.....	8
III.	Reflection on Learning.....	13
a.	Previous knowledge learned from my Masters' program.....	14
b.	New knowledge.....	14
c.	Personal experience.....	15
IV.	References.....	16
V.	Appendices.....	17

I. Business Project Context

a. Company

Avaleo is a medium size Danish enterprise software company founded in 2006. The company's core product – CaseFlow- is a cloud based case management software (CMS) solution provided as Software-as-a-Service (SaaS). Although its broad target market are private and public human centric welfare services providers, Avaleo's current customers are 81 out of the 98 Danish municipalities, serving in total 25 000 end users.

As health and social care are free of charge in Denmark, the municipalities are responsible for their provision and payment. As a result, CaseFlow not only covers all the functionalities associated with their roles as both *providers* and *payers* of welfare services but also supports the entire journey of the citizen through the welfare system.

b. Current client situation

Since its inception, Avaleo focused its efforts on implementing a product development strategy focused on elder care, social services (e.g. mental, physical, etc.) and health care. The company also started to expand its product offer to areas such as children care and labour market services. Currently, Avaleo is enlarging its vision to being present in foreign markets, in particular in the UK. By pursuing this, Avaleo is seeking to shift from a predominant product development strategy to a market development strategy.

c. The Business Project challenge

Avaleo wished to assess the possibility of entering the UK market, after attaining a solid position in its domestic market. Therefore, the purpose of the business project was to analyse the UK environment in order to propose the most appropriate entry strategy taking into consideration Avaleo's current capabilities and resources. The analysis also included a recommendation on the best acquisition target as well as an implementation plan.

d. Market overview

In opposition to Denmark, there is a separation of the health and social care sectors in the UK. Moreover, only health care is free of charge while social care is means tested. The local councils in the UK mainly assess the care and financial needs of patients but

commission services externally in what concerns state funded care. As a result, there is a significant split between *care providers* and *care payers*, which leads to two main target customer groups with different needs for CMS.

Regarding the *care providers* market, it is a very fragmented market comprised mainly of SME's including both domiciliary care agencies and care homes. Although it is estimated that 50% of the market is still not served with IT solutions and carers tend to be technophobic, the current consolidation of the industry and the increasingly strict quality compliance standards are driving an increase in the demand for CMS. In opposition, the 152 local councils that are the *care payers* for public funded care belong to a largely served market in terms of CMS. Only 5% of local councils use in-house systems, whereas the remaining 95% have commercial solutions currently being offered by 7 main players.

e. Summary of conclusions

Both *care payers* and *care providers* were concluded to be attractive for Avaleo to enter for different reasons. Also, an acquisition was argued to be the most suitable entry strategy given that: (1) the relationships between supplier/buyer of IT solutions tend to be long-term (5-year contracts), so there is the need to have immediate access to a large customer base and (2) UK specific social care know-how is required to operate successfully in this market.

In order to find an acquisition target, the IT market serving *care payers* was initially analyzed taking into consideration 3 criteria - size, customer base and ownership structure. Although OLM Group Ltd. fitted the criteria better, the company is still too large of an acquisition target. As a result, the *care providers'* IT market was analyzed taking into consideration the same criteria and Careblox was chosen as target priority number one.

In sum, Avaleo should enter the UK as the timing is now and the industry is still maturing. For this purpose, the short-term recommendation is to enter through the *providers* systems' market by acquiring Careblox. The long-term vision comprises Avaleo being amongst the first movers to drive integration of *payers* and *providers'* systems in the UK given Avaleo's already existing capabilities and resources of supporting the patient's journey through the welfare system. For this purpose, it was recommended to monitor the performance of OLM in the next 3-5 years since it might be an interesting future acquisition target.

II. Greenfield: an alternative entry strategy for Avaleo in the UK

Educating the consumer for the need of case management software in the provider's systems market

Greenfield: an alternative entry strategy

When considering the potential entry into the UK market, a whole owned subsidiary (foreign direct investment) was described as being the most effective entry strategy given the high need for control of technological know-how. For the *payers systems'* market, an acquisition is the most attractive entry mode as it was explained in the Business Project. However, it was concluded that although an acquisition was a better fit to enter the *providers systems'* market, it would also be feasible to enter through a greenfield strategy.

However, a greenfield investment strategy would be more time consuming since it would take more time to gather UK care specific know how and to build a customer base whereas the proposed acquisition strategy would allow for immediate access to specific know-how and customers. On the other hand, the proposed acquisition strategy is highly dependent on finding the right target. Several limitations in the analysis of potential targets were identified such as lack of financial data to conduct proper due diligence, unwillingness to sell from founders/owners or potential cultural clash with Avaleo. As such, this paper will propose a backup strategy for Avaleo to enter the UK *providers systems'* market through a greenfield investment strategy. As described before, the main challenges Avaleo would face under this alternative would be (1) lack of UK specific know-how to adapt the product to the UK setting and (2) build a customer base from scratch.

The Opportunity and the Challenges

As described in the Business Project, the UK social care market in terms of domiciliary care agencies and care homes remains largely unserved in terms of IT case management solutions. It was estimated that around 50% of care homes and home care agencies still use paper based documentation or for example, Excel. Therefore, there is still a lot of room for growth in this market. By going greenfield, Avaleo could allocate sufficient time and resources to adapt its product to the UK specific needs and regulations that could disrupt the market and grab market share. But more importantly that trying to compete directly with the existing players in the market, Avaleo could largely benefit from trying to capture the 50% of the market that is still not served.

Nevertheless, this will be a difficult challenge. First of all, domiciliary care agencies and care homes are operating with decreasing margins given the increasing downward pressure on prices imposed by the local councils that are the main purchasers of care services. As such, case management solutions are not the first item in the agenda of care providers.

Secondly, the target end users of IT solutions are carers that are mainly women over 50 years old and with low education levels concerning software. Most of them were described as being *tecnhophobics* in the interviews conducted at the Bournemouth Care Show. Thus, substantial marketing efforts will have to be put in place to educate the consumer for the need of case management software and its benefits.

As a result, there are two important stakeholders to take into consideration when understanding which actors will have to be persuaded in the process of building a customer base: (1) the directors of the care homes and home care agencies who have decision making power to buy the software and (2) the carers that will be the ultimate end users. The present Work Project will focus on elaborating a marketing strategy that aims at persuading both stakeholders to purchase case management software from Avaleo.

Strategy to educate the consumer for the need of case management software and its benefits in the providers' systems market

The challenge is not only to design and build a highly beneficial product. The consumers have to be educated to actually understand the underlying benefits and functionalities of the product and how it addresses their needs and make their job easier, faster, more professional and with better quality. At the Bournemouth Care Show, two care providers that were interviewed said they had case management software in place but it was not fully implemented and they didn't fully use it in the daily operations.

Consumer education is something that smaller companies tend to overlook as the benefits may not be obvious and take some time to materialize but the truth is that educated customers are good and happier customers. Customers who don't fully understand product functionalities may tend to be dissatisfied, drain the company's support time or even switch supplier. Moreover, consumer education does not only refer to when the product has already actually been sold. The concept also applies to customers who still don't use the

product and are not aware of how they could benefit from it. In other words, they still don't feel the need but the need is there to be explored if they are to be convinced there is a problem that can be solved with the product.

In order for consumers to adopt an innovative product, they have to go through several stages. The consumer adoption process includes: (1) *the awareness phase*, in which the consumer hears about the existence of the product but does not hold a lot of information about it; (2) *the interest phase*, in which the consumer feels compelled to seek for more information; (3) *the evaluation phase*, in which the consumer considers the possibility of experimenting the innovation; (4) *the trial phase*, in which the consumer actually experiments the innovation and (5) *the adoption phase* in which the consumer finally uses the innovation on a regular basis.

Managers from care homes and domiciliary care agencies are still mostly in the first phase and to a certain extent in the second and third phase of the process according to the interviews conducted at the Bournemouth Care Show.

When considering the technology adoption lifecycle (Appendix 1), the carers and managers of the part of the market that is still not served can be characterized as Late Majority and Laggards. Late majority is described as “skeptical conservatives who are risk adverse, technology shy and price sensitive” and Laggards are “tradition –bound and resist the innovation until the status quo is no longer defensible” (Keller & Kotler, 2012).

Segmenting customers by the speed of adoption allows to understanding that different marketing strategies have to be designed for each group in order to influence them to adopt the innovation. In later stages of the adoption curve and in the evaluation phase, *personal influence* plays an important role. Personal influence can be described as “the effect one person has on another's attitude or purchase probability” (Keller & Kotler, 2012).

In order to influence customers to adopt case management software and in particular to buy Avaleo's solution, five criteria have to be taken into consideration: (1) *relative advantage* which is the degree to which the innovation appears superior to existing products; (2) *compatibility* which is the degree to which the innovation matches the values and experiences of the individuals; (3) *complexity* which is the degree to which the innovation

is difficult to understand or use; (4) *divisibility*, that is, the degree to which the innovation can be tried on a limited basis and (5) *communicability* that is the degree to which the benefits of use are observable to others (Keller & Kotler, 2012). The proposed strategy of attracting customers will address how to build the right product and promote it taking into consideration these five criteria while at the same time giving emphasis to the need of personal influence in the consumer education process.

1. Build the right product

When entering the UK, Avaleo will have to adapt its product offering to meet local conditions and preferences. However, the message conveyed to customers will also differ. By adapting both the product and communications, the company engages in a *dual adaptation strategy* (Appendix 2).

In what concerns the product adaptation, Avaleo will focus on *incremental innovation*, using variations on the core product to stay one step ahead of competition. Product development should be the result of a cross functional team of professionals (doctors, nurses, software developers, managers, etc.) that should work alongside with regulators to understand the ever-changing regulations of the UK health and social care sector. Moreover, potential customers and competitors should be studied to add extra input.

In order to address the *relative advantage* and *compatibility* factors, the adapted product has to be an integrated solution that includes all the functionalities provided by competitors as described in the Business Project. Integration with others softwares such as financial systems is key. Moreover, compliance was the first reason mentioned to buy software from the interviewees at the Bournemouth Care Show. As a result, the new product has to include a CQC tool kit. Additionally, as the Department of Health is pursuing the integration of health and social care and also the personalization of care, Avaleo's adapted product can be a first mover by being the first one introducing the citizen portal. Avaleo has also a lot to gain from integrating with the software from current market players such as CM2000 as a way to obtain market accreditation and visibility. The software should also be accessible in multiple hardware devices that are not only a PC (e.g. tablet and smartphone)

to guarantee mobility and integration in everyday care provision. In what concerns *complexity*, the product should be easy to use, user friendly, simple and intuitive.

Product development should be an ongoing process. Market testing should be in place with a limited number of potential customers. Free trials should be given so that the company's should observe how customers use the product and the main difficulties and frustrations in the usage to improve the product. This could also help creating an initial customer base.

Regarding the communication strategy, the new message Avaleo will convey in the UK is not about supporting the patient's journey through the welfare system as in Denmark. Now, the message should emphasize how the product will help the company comply better with the Care Quality Commission standards, make the service more reliable, automate the processes and therefore cut costs.

2. How to promote the product and educate the consumer

As mentioned before, customer education is important once the product has been bought by providing training days and after-sale support. However, it is also important to educate the consumer to convince them to buy the product. The main challenge after adapting the product to the UK market and creating a superior product is to ensure *communicability*. As explained before, it is the degree to which customers are able to observe the benefits of the product and therefore see the need to purchase it. In order to do so, it is of utmost importance to increase the customer perceived value that currently is low. The customer value can be increased by raising the economic, functional and emotional benefits and also costs by offering a competitive price. The economic and functional benefits can be more useful when persuading managers and directors. The value proposition in the communication strategy should include key words such as *cloud based solution* (no implementation and maintenance costs); *integration* with key systems and all functionalities included; *service support* and even *free training days* for first clients; *compliance*; *reliability* and *efficiency* of service provision. Moreover, economic arguments such as the fact that automated processes in a labor intensive business can decrease labor costs and increase the service quality can also be useful.

Avaleo should pursue interactive marketing communication options such as the creation of a webpage directed to the English market. In the website, videos explaining the product functionalities, testimonials and case studies in Denmark and in the UK should be included. Moreover, Avaleo should take advantage of online communities and forums to collect and convey key information, as Intuit did (Appendix 3).

Carers, on the other hand, should be attracted through functional and emotional benefits. They should be included in the product development process and receive free demonstrations for specific period of time (*divisibility*) to understand how the job can become easier and more fun. Avaleo should target growing SME's through telemarketing to offer demo versions or to schedule live demonstrations. Sales representatives should be technicians or even better solutions vendors. This is when personal influence can significantly make a difference. By asking situation questions (e.g. what systems do you currently have in place to deal with invoices?); problem questions (e.g. how do you document care without a software?); implication questions (e.g. what happens if information is missing and that compromises the health of a patient?) and need-payoff questions (e.g. how much would your company save if reliability increased by 20%), sales people can influence carers to increase the perceived customer value.

The six steps of Appendix 4 explain the process of attracting new customers. Target customers have to be identified and qualified by e-mail or phone (*prospecting and qualifying*); the salesperson learns as much about the prospect company to create an individualized sales strategy (*pre-approach*); the sales person tells the product story to the customer talking about the features, advantages, benefits and value (FABV) approach (*presentation and demonstration*); *overcoming objections*; *close the deal* and *follow-up and maintenance*.

In sum, once managers and carers have contact with the product, understand the scope of the product's abilities and how it impacts the quality of the services provided, they will understand the need to buy case management software, in particular Avaleo's CaseFlow. Moreover, educated customers are better able to maximize the product's potential and drain less support time. As such, the ability to educate the consumer through substantial marketing efforts will be the key success factor in Avaleo's entry into the UK *providers systems'* market through a greenfield investment strategy.

III. Reflection on Learning

The Business Project was undoubtedly a valuable learning experience that allowed me to develop myself at both personal and professional levels, as it will be described below.

a. Previous knowledge learned from my Masters' program

Overall, there was no direct application of the knowledge I have acquired in my Masters in Finance. The initial briefing given to the group included a financial valuation on the recommended acquisition target in order to make a proposal on a price range that would be the basis of a negotiation. However, the companies that were considered suitable for acquisition targets were SME's that are only obliged to disclose balance sheets according to the UK legislation. Thus, no possible valuation based on a Discounted Cash Flow or Multiples method could be executed. Nevertheless, some frameworks learned in my bachelor degree in Management were applied such as the industry lifecycle, the BCG matrix, the SWOT analysis, the Ansoff's growth matrix and the Porter's Five Forces.

b. New knowledge

The project was really insightful in the sense that I was able to learn a lot of new frameworks and project management practices. Amongst the different frameworks that I learned, the most relevant ones were the PESTEL model, the Johnson, Scholes and Whittington (JSW) model of strategic planning and the model illustrating the trade-off between control and capital demand of Kreikebaum, Gilbert & Reinhardt (2002).

However, I believe that the most valuable learning experience had to do with the development of project development skills. The assignment of roles was an important practice to allocate work and resources. More specifically, as the project manager, I had a greater responsibility of assuring a proper implementation of *planning*, *monitoring* and *controlling* so that the project could be delivered within the deadlines according to the quality standards the team, the company and the supervisor expected.

For the *planning* phase, a Briefing Note was developed and it was a first time experience for me. Additionally, an excel sheet called "Work Organization" was constantly updated with tasks, deadlines, person assigned to each task and person responsible to review the task's quality to ensure proper *monitoring* and *controlling*.

Nevertheless, the major challenge had to do with *managing relationships* within the group and with the different external stakeholders. Within the group the major difficulties arose from different agendas, cross-cultural management issues and management of team morale. However, the cultural differences were also highly beneficial to bring creative perspectives to the table in the team's weekly meetings. Moreover, it was a challenge to manage the expectations of the company's founder and supervisor that wanted the scope to be as broad as possible. *Communication* was thus very important so that all stakeholders had a common understanding of how the project would be managed. As a project manager, managing scope and ensuring the sponsors approved scope change requests were one of my most important responsibilities. For this purpose, ongoing communication through e-mails, physical meetings and weekly Google Hangout sessions were crucial.

c. Personal experience

i. Your key strengths & weaknesses - insights from participating in this project

I believe that I have succeeded in the role of project manager. My interpersonal skills allowed me to manage the expectations of all stakeholders and avoid conflicts. I am also aware that my versatility allowed me to contribute with innovative ideas to the project. Moreover, I feel that I have learned a lot in terms of being more comfortable in a professional environment and gained confidence. In terms of weaknesses, I felt that CBS is much more academic than NOVA, thus I felt a lack of preparation in terms of methodological techniques. Moreover, I also had some difficulties sometimes in delegating work as I wanted to ensure the cohesiveness of the project.

ii. Plan to develop your areas of improvement

I am aware that my ability to be empathetic, dynamic, objective and easy-going allowed for a good atmosphere in the team while at the same time ensuring project quality. However, I feel that if I had been more confident and assertive with the founder of the company, he could have been more open to share important information. Therefore, I will extrapolate the confidence and professionalism that I built in this project to future professional challenges while at the same time making sure that my positive attitude and characteristics prevail in all situations, even in the most difficult ones.

References

- **Books**

Keller, K.L.; Kotler, P. (2012). *Marketing Management*. Pearson Education Limited

- **Business Project**

Bachler, V; Cekemci, E.; Kristiansen, S.; Serrano, M.; Tworek, Anna (2014). *Avaleo: finding growth opportunities in the UK market*. CEMS Business Project. Copenhagen Business School

- **Online Resources**

TechRepublic. Retrieved on June 8, 2014 from:

<http://www.techrepublic.com/blog/10-things/10-best-practices-for-successful-project-management/>

Small Business Software, Retrieved on June 10, 2014 from:

<http://www.small-business-software.net/consumer-education.htm>

Accounting Web. Retrieved on June 10, 2014 from:

<http://www.accountingweb.co.uk/topic/technology/sages-2008-results-reflect-toughening-market>

How to market software. Retrieved on June 11, 2014 from:

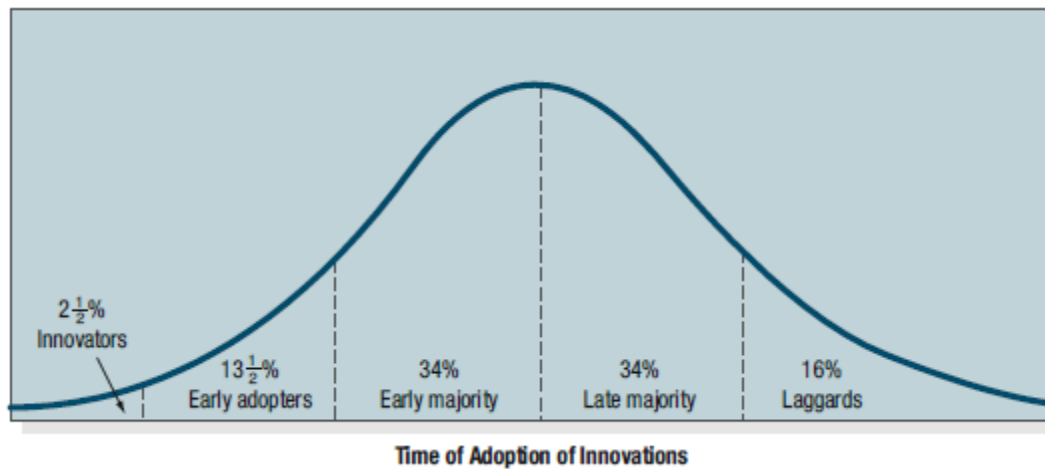
<http://howtomarketsoftware.com/>

DevPro Connections. Retrieved on June 12, 2014 from:

<http://devproconnections.com/development/how-market-your-software-business-guide-developers>

Appendices

Appendix 1: Technology Adoption Lifecycle



Source: Keller and Kotler (2012)

Appendix 2: Product Adaption Strategies

		Product		
		Do Not Change Product	Adapt Product	Develop New Product
Communications	Do Not Change Communications	Straight extension	Product adaptation	Product invention
	Adapt Communications	Communication adaptation	Dual adaptation	

Source: Keller and Kotler (2012)

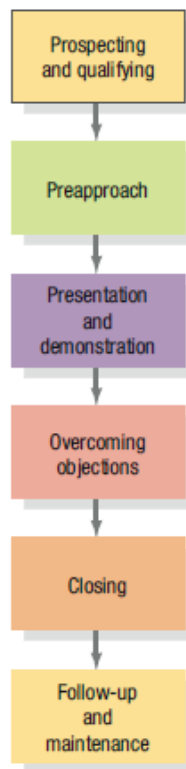
Appendix 3: The Intuit example



A technology marketing pioneer, Intuit created a strong online brand community for its QuickBooks software product.

Source: Keller and Kotler (2012)

Appendix 4: The process of attracting new customers



Source: Keller and Kotler (2012)